Crown Life Insurance Company

Annual Report – 2000

CrownLife®

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Corporate Profile

Over the past hundred years, Crown Life has shaped a tradition of building better futures for our customers. Established in 1900 to provide financial security for clients, Crown has provided solid returns through its professional management of portfolios of bonds, mortgage loans and shares. With the sale of a major portion of its insurance activities in 1999, the Company now has a strong focus on the development of its investment management activities.

Crown Life has total assets of $1.4 billion and capital in excess of $500 million. Based in Regina, the Company continues to manage its remaining insurance business which is primarily in the United States. We seek to deliver superior value by capitalizing on our investment management expertise. The Company's wholly-owned subsidiary, Crown Capital Partners Inc., manages private equity investments for third parties and has $186 million in funds under management. The Company has a 50 per cent interest in MCAP Commercial LP, a partnership which provides origination and servicing of commercial mortgages in Canada and servicing of commercial mortgages in the United States. MCAP Commercial LP currently is servicing approximately $1.3 billion in commercial mortgages.

Crown Life's Common Shares are owned by HARO Financial Corporation of Regina, Saskatchewan, which owns 65 per cent of the Common Shares of the Company, and Extendicare Inc. of Markham, Ontario, which owns 35 per cent. The Company's Class I Preferred Shares trade on the Toronto Stock Exchange.

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Toronto Stock Exchange Listing:
Class I Preferred Shares, Series A: CLA.PR.A

Transfer Agent:
Computershare Trust Company of Canada

Message from the Chairman & President and Chief Executive Officer

In 2000, Crown Life continued the transition to a stronger focus on its investment management activities. Our objective is to build shareholder value through solid management of our mortgage loan and real estate portfolios and prudent investment in public and private companies.

Income from operations in 2000 was $35 million, compared with $33 million in 1999. The increase in operating income reflects improved returns on the Company's share portfolio which consists primarily of investments in private equities.

During the year, the Company completed the acquisition of Common Shares held by minority shareholders. There was limited trading in the Company's Common Shares, and the Board of Directors concluded that it was appropriate to offer liquidity to minority shareholders given the changing nature of the Company's operations. Over 97 per cent of the minority shareholders accepted an offer made under an Issuer Bid, and the remaining Common Shares have since been acquired by a compulsory acquisition as permitted by the governing law. All of the Common Shares of the Company are now held by HARO Financial Corporation and Extendicare Inc.

There were two developments during 2000 with respect to the Company's investment management activities.

Crown Capital Partners Inc. ("CCPI") was formed as a wholly-owned subsidiary of Crown to carry on private equity management activities. CCPI entered a contract to manage approximately $186 million in funds of the Saskatchewan Government Growth Funds. These are funds raised under immigrant investor programs. The staff of the Saskatchewan Government Growth Fund Management Corporation, which previously managed these funds, joined CCPI in 2000. Gary Benson, who was President of SGGFMC and who has considerable experience in private equity management in the Province of Saskatchewan, joined Crown as a Vice-President. CCPI also manages the private equity investment portfolio of the Company.

The Company also entered a partnership with MCAP Inc. Each partner has a 50 per cent interest in the new partnership, MCAP Commercial LP, which was formed to capitalize on the commercial mortgage origination and servicing abilities of both MCAP and Crown.

During the year, we continued to improve the quality of the assets which support our remaining insurance liabilities, which are based largely in the United States. Under agreements entered as part of the sale of substantially all of our insurance business in 1999, it is likely that our remaining insurance activities will be transferred in the next three years.

As a result of the acquisition of Common Shares held by minority shareholders and the transition of the Company's operations, it is planned to reduce the size of the Board of Directors at the Annual Meeting in 2001. As a result, a number of directors who have served the Company will be leaving the Board. On behalf of the Board, we extend our thanks and appreciation to Hon. Allan E. Blakeney, Hon. James J. Blanchard, and Messrs. H. Michael Burns, C. Dennis Knight, and Alvin G. Libin for their wise counsel over the years. In particular, we wish to recognize Michael Burns' service as a director since 1966, and as a past Chairman and President of the Company.

On behalf of the Board, we also extend our thanks to the Crown team which has continued to demonstrate their commitment to excellence. We look forward to the continued transition of the Company's operations.

Paul J. Hill

Paul J. Hill
Chairman

Brian Johnson

Brian A. Johnson
President and Chief Executive Officer

Management Discussion and Analysis

In 2000, Crown Life made considerable progress in improving asset quality and restructuring the Company in preparation for the transfer of its remaining insurance activities under options which become exercisable on January 1, 2004. At the same time, the Company developed its investment management activities. The highlights for the year are:

- A new subsidiary, Crown Capital Partners Inc. ("CCPI"), was formed to carry on Crown Life's private equity management activities and CCPI entered a contract to manage approximately $186 million in funds for the Saskatchewan Government Growth Funds.

- Crown Life became an equal partner in a joint venture with MCAP Inc. whereby the commercial mortgage origination and servicing activities of both companies have been combined in MCAP Commercial LP.

- All of Crown Life's Minority Common Shares were acquired in an Issuer Bid in 2000, resulting in its two principal shareholders, HARO Financial Corporation and Extendicare Inc., owning 65.2 per cent and 34.8 per cent, respectively, of the Company's common equity at year-end.

- Mortgage loans and real estate investments continued to be reduced, with proceeds reinvested in high quality bonds or used to pay down debt.

The Company's remaining insurance activities are focused in the United States, and are administered by Canada Life under an administrative services agreement. Income from operations in 2000 reflects the underlying profitability of the Company's ongoing business. This performance is expected to be representative of future results, although net income will likely trend lower over the next several years as higher-yielding mortgage loans mature and real estate is sold, with proceeds reinvested in lower-yielding high quality bonds or used to reduce debt.

RESULTS OF OPERATIONS

Income from operations improved in 2000.

Income from operations in 2000 was $35 million, compared with $33 million in 1999. The improvement reflects higher investment income, primarily from the Company's share portfolio which consists mostly of private equities.

Net income was $35 million in 2000, compared with $81 million in 1999. The 1999 results included the gain of $48 million attributable to the shareholders' account on the sale of substantially all of the Company's insurance operations effective January 1, 1999 to The Canada Life Assurance Company (the "Sale Transaction").

Total revenue was $151 million, unchanged from 1999.

Investment income was $111 million in 2000 compared with $107 million in 1999. The average yield on the Company's invested asset portfolio was 7.9 per cent in 2000, compared with 7.4 per cent in 1999.

Premium revenue was $40 million, compared with $45 million in 1999. Premium revenue consists almost entirely of the Company's 20 per cent interest in renewal premiums on its individual life insurance business, and the reduction from 1999 reflected normal lapse experience.

Geographically, approximately 75 per cent of premium revenue is generated in the United States, 17 per cent is generated in Canada, and 8 per cent is generated in other international operations.

Expenses totaled $120 million, compared with $118 million in 1999.

Policy benefit costs and dividends paid to participating policyholders were $83 million in 2000, compared with $78 million in 1999. The higher level of benefit costs reflects the settlement of an indemnity obligation with respect to the sale in 1995 of the Company's U.K. insurance business. Commissions and other policy-related expenses were $3 million in 2000, compared with $4 million in 1999, reflecting the elimination of new insurance sales. Operating expenses were $12 million in 2000, unchanged from 1999.

As described in note 7 to the Consolidated Financial Statements, effective January 1, 2000, the Company adopted new accounting standards of the Canadian Institute of Chartered Accountants ("CICA") for income taxes whereby income taxes are now accounted for using the liability method. Prior to adoption of this new accounting standard, income taxes were accounted for using the taxes payable method under which income taxes are provided on taxable income. The Company has adopted the new income tax accounting standard retroactively without restating the financial statements of any prior periods. Future income tax expense in

2000 was $0.3 million. Current income tax expense was $0.8 million in 2000, compared with $0.5 million in 1999.

Interest expense incurred in 2000 on the note payable to Canada Life recorded as part of the Sale Transaction was $8 million, compared with $10 million in 1999, reflecting the reduction in the principal amount outstanding during the year. Interest expense incurred on mortgage financing was $10 million, compared with $8 million in 1999. The increase reflects the effect of higher interest rates during the year as the loan was at floating rates.

The participating account incurred a loss.

A loss of $5.1 million was incurred in the participating account in 2000, compared with income of $0.3 million in 1999. The loss reflects the settlement of an indemnity obligation with respect to the sale in 1995 of the Company's U.K. insurance business referred to above.

FINANCIAL POSITION

Total assets were $1.4 billion, unchanged from a year ago.

Total assets at December 31, 2000 were $1.4 billion. In addition, the Company manages an additional $186 million in investments for others through CCPI.

Assets expressed in local currencies decreased by approximately 6 per cent during 2000. However, the decrease was offset when amounts are translated to Canadian currency by the weakening of the Canadian dollar to Can$1.50 per U.S. dollar at December 31, 2000 from Can$1.44 per U.S. dollar a year earlier. Approximately 57 per cent of the Company's assets are denominated in U.S. dollars.

The bond portfolio had an average rating of AA+.

At December 31, 2000, the bond portfolio totaled $453 million, representing 33 per cent of total assets, compared with $363 million (25 per cent) a year earlier. The portfolio includes $315 million of U.S. and Canadian government bonds. The Company has emphasized high-grade bonds, and less than one per cent of the portfolio was rated below investment grade. No bonds were in default at December 31, 2000.

The Company's mortgage loan portfolio was reduced by 21 per cent.

Mortgage loan investments at December 31, 2000 were $395 million, representing 28 per cent of total assets, compared with $497 million (34 per cent) a year earlier. No new mortgage loans were originated in 2000.

At December 31, 2000, U.S. mortgage loans were US$214 million (23 per cent of total assets), compared with US$273 million (27 per cent) at December 31, 1999. There have been no U.S. mortgage loans in arrears 90 days or more in the past 18 months. During 2000, the restructured component of the portfolio was reduced by US$13 million to US$39 million. The U.S. mortgage loan portfolio consists of loans in 25 states. Property types are restricted to retail, office, apartments and industrial. Only 1 loan exceeds US$10 million.

Canadian and other mortgage loans were $73 million at December 31, 2000 (5 per cent of total assets), compared with $103 million (7 per cent) at December 31, 1999. Canadian mortgage loans in arrears 90 days or more, before specific provisions, were $8 million at December 31, 2000, unchanged from a year earlier.

Real estate investments were reduced by 18 per cent.

Real estate investments at December 31, 2000 were $303 million, representing 22 per cent of total assets, compared with $372 million (26 per cent) a year earlier.

Real estate held for investment was $277 million, compared with $336 million at December 31, 1999. Approximately 90% of the decrease results from the sale of Place du Parc, an office building in Montreal, Quebec. Most real estate held for investment is located in Canada. U.S. properties have a carrying value of $76 million.

Properties acquired by foreclosure and held for sale totaled $38 million (1999 - $47 million) before specific provisions for credit losses. The level of properties acquired by foreclosure reflects the Company's intention to seek permanent resolution by way of foreclosure and sale of any mortgage loans which fail to meet contractual terms.

Adequate provisions exist for future credit losses.

At December 31, 2000, provisions for future credit losses totaled $33 million, compared with $42 million at the end of 1999. No increase in the provision for credit losses was required in 2000. In 1999, an increase in the provision for credit losses of $8 million was reflected in the gain on the Sale Transaction. Credit losses charged to the provision during 2000 totaled $9 million, compared with $5 million charged in 1999. Provisions are expected to be adequate to cover credit losses for the foreseeable future.

Liquid assets totaled $625 million.

The Company matches maturities of assets and liabilities and a substantial portion of the bond portfolio is invested in readily marketable government bonds. The Company's cash position and high-quality bonds, together with other assets that can be liquidated within 45 business days, resulted in total liquid assets of $625 million at December 31, 2000.

Certain policy liabilities of the Company have cash surrender values. The Company's current level of liquidity is strong given the profile of its liabilities, the probability of policy surrender, and scheduled maturities on long-term debt.

The Company reduced its debt financing in 2000.

At December 31, 2000, the amount outstanding on the note payable to Canada Life arising from the Sale Transaction was reduced by $22 million to $85 million. The note is immediately repayable if Canada Life should exercise its option to acquire the remaining insurance business or the Company's Common Shares.

In December 2000, the Company reduced its mortgage financing using part of the proceeds from disposition of real estate assets, and refinanced the loan on two Canadian real estate properties with the result that the Company's mortgage financing was reduced to a fixed rate mortgage of $96 million at an interest rate of 7.1 per cent, from a floating rate mortgage of $114 million at an interest rate equal to the rate on bankers' acceptances plus 2 per cent at the end of 1999.

The Company repurchased its Common Shares held by minority shareholders.

At December 31, 2000, Crown Life's total equity was $503 million, compared with $507 million at the end of 1999. The Company's equity represented a ratio of liabilities to equity of 1.8 : 1, unchanged from December 31, 1999.

Equity was reduced as 294,752 Common Shares held by minority shareholders were repurchased at a total cost of $36 million, of which $21 million was charged to share capital and $15 million was charged to retained earnings.

As a result of the adoption of new accounting standards of the Canadian Institute of Chartered Accountants ("CICA") for income taxes, at January 1, 2000, the Company has recorded an increase in retained earnings and in other assets of $7 million.

Preferred shareholders' dividends of $9 million were paid on the Company's Class I Cumulative Preferred Shares in each of 2000 and 1999. In view of the fact that the Company's regulatory capital ratio is significantly in excess of requirements, the Company intends to consider distributions of capital to shareholders, taking into consideration the Company's income, liquidity and regulatory capital requirements, future business plans, and other factors deemed relevant by the Board of Directors.

The foreign currency translation adjustment was $14 million at December 31, 2000, an increase from $12 million at the end of the previous year. The increase reflects the weakening of the Canadian dollar to Can$1.50 per U.S. dollar at December 31, 2000 from Can$1.44 at December 31, 1999. Although the majority of the company's assets are denominated in U.S. dollars, the change in currency translation rates has limited effect on the foreign currency translation account because the Company has hedged to Canadian dollars most of its net asset position with respect to the U.S. dollar.

RISK MANAGEMENT

With the completion of the Sale Transaction on January 1, 1999, the Company's insurance operations consist of a 20 per cent interest in portfolios of participating and non-participating individual life insurance business and group pensions business, both primarily in the United States, and a portfolio of life reinsurance business in Canada. Amounts of new insurance business in the future will be minimal. The Company's policy liabilities are $547 million, and the Company has total assets of $1.4 billion.

Management Discussion and Analysis

Crown Life's continued financial strength and profitability depend on effective management of the risks inherent in all aspects of the Company's business. These risks are primarily investment credit risk, asset-liability management, and the incidence of claims and persistency rates for individual life insurance products. Corporate policies provide guidelines for the senior officers responsible for monitoring and managing these risk exposures.

Investment credit risk is managed through documented investment policies which adhere to the prudent person standard. This standard requires that investments satisfy the return objectives and risk tolerance of the Company, proper due diligence is conducted, and invested assets are appropriately diversified. Senior officers are involved on a regular basis in reviewing investment strategy and approving investment transactions.

Asset-liability management ensures that the Company's invested assets are appropriately matched to the duration of liabilities. The objectives are to minimize the risk to the Company of changes in market interest rates and to meet current and future liquidity needs. An additional objective is to ensure that sufficient assets of acceptable credit quality exist to be transferred to Canada Life at such time that it exercises its option to acquire the remaining insurance business. The Company's policy is to match liabilities with assets denominated in the same currency to limit exposure to foreign currency fluctuations. Senior investment and actuarial officers periodically review the matching of assets and liabilities and ensure that any necessary adjustments to invested assets are made.

Premium rates for individual life products were based on the Company's view of the most probable future outlook for the incidence of claims and lapse rate experience, persistency, interest rates and expense rates. Actual results may differ from the outlook used in establishing premium rates. For participating business, dividends can be adjusted over time to reflect actual experience. For non-participating business, interest rates can often be adjusted over time to reflect actual experience, although most products offer guaranteed minimums for interest crediting rates.

Under agreements entered into with Canada Life, Canada Life has options to make an offer to acquire the Common Shares of the Company or to acquire its remaining insurance business. Policy liabilities at the time of such acquisition will be determined on the basis of assumptions for the incidence of claims and persistency which were used at December 31, 1996. Accordingly, the long-term effect of any adverse experience with respect to these factors will not result in an increase in policy liabilities. The Company will incur only the effect of current experience on the annual profitability of the Company's retained interest in its insurance operations in each year prior to the exercise by Canada Life of its option. Similarly, the Company does not benefit from the long-term effect of any improvement in these factors.

With respect to interest rates, the terms of the Sale Transaction provide that policy liabilities will be determined on the exercise of the options by Canada Life on the basis that the spread existing between rates earned on investments and rates credited on policy liabilities will be maintained at the levels assumed at December 31, 1996. Generally, any reduction in interest rates earned on investments which cannot be offset by a reduction in interest credited to policyholders will result in an increase in policy liabilities.

The Company has engaged Canada Life to administer its remaining insurance policies for a fee equal to Canada Life's per policy administration costs, thereby protecting Crown Life from the effect of fixed costs as the remaining insurance business diminishes in size.

Income on the participating insurance business is for the account of the participating policyholders. The terms of the option held by Canada Life to make an offer to acquire the Common Shares of the Company require the Company to ensure that participating policyholders' equity is not negative at the time of any acquisition of Common Shares under such offer.

In the past, volatility in income from insurance operations, particularly claims experience, significantly influenced the Company's profitability. In future, profitability of the Company's mortgage loan and real estate portfolios, which are influenced by the effect of general economic conditions, especially interest rates and office vacancy rates, in Canada and the United States, will have a greater impact on net income.

Management's Responsibility for Financial Reporting

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and changes in financial position of the Company within reasonable limits of materiality. All financial information in the annual report of the Company is consistent with that shown in the consolidated financial statements.

Management maintains accounting systems and internal controls to provide reasonable assurance that financial records are complete and accurate, financial statements are reliable, and assets are safeguarded against loss.

The Appointed Actuary is appointed by the Board of Directors. His responsibility is to carry out the valuation of the policy liabilities included in the consolidated financial statements and to report on the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. The Appointed Actuary makes use of the external auditors' work in the valuation. The Appointed Actuary's Report outlines the scope of the valuation and his opinion.

KPMG LLP have been appointed external auditors. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the Company's financial position and results of operations as shown in the annual consolidated financial statements. The external auditors make use of the work of the Appointed Actuary with respect to policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Brian A. Johnson
President and Chief Executive Officer

Alan M. Rowe
Senior Vice-President and Chief Financial Officer

Regina, Canada
February 9, 2001

Auditor's Report and Appointed Actuary's Report

To the Policyholders and Shareholders of Crown Life Insurance Company

We have audited the consolidated balance sheets of Crown Life Insurance Company as at December 31, 2000 and 1999 and the consolidated statements of operations and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

Chartered Accountants

Regina, Canada
February 9, 2001

To the Policyholders and Shareholders of Crown Life Insurance Company

I have valued the consolidated policy liabilities in Crown Life Insurance Company's consolidated balance sheets as at December 31, 2000 and 1999 and their changes in its consolidated statements of operations for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amounts of policy liabilities make appropriate provision for all policyholder obligations and the consolidated financial statements present fairly the results of the valuations.

G. W. Evans
Fellow, Canadian Institute of Actuaries

Regina, Canada
February 9, 2001

Consolidated Statement of Operations
(thousands of dollars)

Years ended December 31	**2000**	1999
Revenue		
Investment income (note 3d)	**110,659**	107,472
Premiums	**40,067**	44,601
	150,726	152,073
Expenses		
Policy benefits	**77,584**	72,235
Participating policyholders' dividends (note 6i)	**5,440**	5,556
Commissions and other selling expenses	**2,822**	4,014
Operating expenses	**12,370**	12,219
Interest on debt	**18,333**	21,977
Premium and capital taxes	**2,990**	2,178
	119,539	118,279
Income before income taxes	**31,187**	33,794
Income taxes (note 7)	**1,057**	536
Income before the undernoted	**30,130**	33,258
Income (loss) attributable to participating policyholders	**(5,055)**	349
Shareholders' income before the undernoted	**35,185**	32,909
Gain on Sale Transaction (note 2)	**-**	47,934
Net income	**35,185**	80,843
Net income is attributable to:		
Preferred shareholders	**9,131**	9,131
Common shareholders	**26,054**	71,712
Earnings per common share (in dollars, note 6h)	**7.61**	20.77

ON BEHALF OF THE BOARD

Paul J. Hill
Chairman

Brian A. Johnson
President and Chief Executive Officer

Consolidated Balance Sheet
(thousands of dollars)

December 31	**2000**	1999
Invested assets (note 3)		
Bonds	**453,110**	363,172
Mortgage loans	**394,819**	497,311
Real estate	**303,006**	371,545
Shares	**52,923**	42,134
Cash and short-term investments	**142,351**	122,392
Accrued investment income	**11,108**	10,003
Other	**9,988**	13,438
	1,367,305	1,419,995
Other assets		
Premiums receivable	**2,622**	2,601
Amounts receivable under reinsurance agreements	**9,612**	12,381
Other	**11,074**	8,154
	23,308	23,136
	1,390,613	1,443,131
Liabilities		
Policy liabilities (note 4)	**546,845**	537,144
Accrued expenses and other liabilities	**129,779**	157,328
Debt (note 5)	**181,450**	221,988
	858,074	916,460
Deferred net gains realized on disposal of invested assets (note 3b)	**29,404**	19,485
Equity (note 6)		
Participating policyholders'	**(11,887)**	(6,813)
Preferred shareholders'	**91,315**	91,315
Common shareholders'	**423,707**	422,684
	503,135	507,186
	1,390,613	1,443,131

Contingent liabilities (note 10)

Consolidated Statement of Cash Flows
(thousands of dollars)

Years ended December 31	2000	1999
Cash provided by (used in) operating activities		
Net income	**35,185**	80,843
Adjustments for:		
Undistributed share of participating policyholders' income (loss)	**(5,055)**	349
Sales and maturities of invested assets, net of purchases	**62,952**	423,309
Decrease in policy liabilities	**(16,931)**	(42,342)
Net change in other assets and liabilities	**15,821**	(70,434)
	91,972	391,725
Cash provided by (used in) financing activities		
Mortgage loan proceeds (note 5b)	**96,000**	120,000
Mortgage loan repaid	**(114,000)**	(6,000)
Note payable repaid	**(22,194)**	(24,035)
Redemption of convertible subordinated debentures (note 5c)	**-**	(149,506)
Common shares issued	**1,859**	-
Common shares purchased and cancelled (note 6g)	**(36,254)**	(525)
Preferred shareholders' dividends	**(9,131)**	(9,131)
	(83,720)	(69,197)
Cash used in investing activities		
Cash supporting insurance business sold (note 2)	**-**	(313,960)
Effect of change in currency translation rates	**2,010**	(13,047)
Increase (decrease) in cash	**10,262**	(4,479)
Cash, beginning of year	**5,589**	10,068
Cash, end of year	**15,851**	5,589
Short-term investments	**126,500**	116,803
Cash and short-term investments	**142,351**	122,392

1. Basis of presentation

Effective January 1, 1999, Crown Life Insurance Company sold or indemnity reinsured substantially all of its insurance operations. Since January 1, 1999, the Company's business has been its remaining insurance operations, which consist primarily of U.S. business together with related investment activities.

The Company operates under the Insurance Companies Act, which provides for the corporate governance of life insurance companies.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada, and include the financial results of all subsidiary companies. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below and in the notes which follow.

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenues and expenses of the Company's foreign operations are translated at average rates of exchange in effect during the year. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. The net amount arising on the adjustment of asset and liability balances to reflect current rates of exchange is included in participating policyholders' and shareholders' equity.

Unless otherwise stated, fair values of financial assets and liabilities approximate their carrying value because of their short-term nature.

Certain 1999 amounts have been reclassified to conform with the financial statement presentation adopted in 2000.

2. Sale and indemnity reinsurance transaction

(a) Effective January 1, 1999, the Company sold or indemnity reinsured substantially all of its insurance businesses to The Canada Life Assurance Company ("Canada Life") (the "Sale Transaction"). Canada Life:

(i) acquired the shares of Crown Life Insurance Company of Canada, a wholly-owned subsidiary of the Company which was created in 1998 and to which the Company's Canadian individual and group life and health insurance and annuity businesses had been transferred on October 31, 1998,

(ii) reinsured, and has agreed to subsequently acquire, the Company's U.S. group life and health insurance business, substantially all of its non-Canadian reinsurance business, and its insurance businesses in the Bahamas, Bermuda, Cayman Islands, Cuba, Hong Kong and Macau,

(iii) indemnity reinsured 80 per cent of substantially all of the Company's remaining insurance businesses, and will administer these businesses, and

(iv) acquired all segregated funds of the Company, which totalled $784.3 million at January 1, 1999.

(b) The agreement also provides Canada Life with an option to acquire substantially all of the Company's remaining insurance business at any time after January 1, 2004 (or at any time after June 30, 2000 if certain litigation is resolved and the Company's ratio of regulatory capital available to regulatory capital required is less than 125 per cent). The Company has an option to require Canada Life to make such acquisition at any time after January 1, 2004. In the case of an

acquisition after January 1, 2004, the Company is required to transfer qualified invested assets equal to policy liabilities at such time to Canada Life.

(c) Canada Life also has an option to make an offer to acquire all outstanding Common Shares of the Company (i) at any time after January 1, 2004 if the financial exposure related to certain litigation and policyholder claims can be quantified; or (ii) at any time after June 30, 2000 if certain litigation and policyholder claims are resolved and the Company's ratio of regulatory capital available to regulatory capital required is less than 125 per cent; or (iii) at any time by agreement with the Company's two principal shareholders. The Company's principal shareholders have agreed to accept such offer. Such offer is to be based on the value of assets supporting the Company's common shareholders' equity at the time of the offer. The Company's principal shareholders have the right to require Canada Life to make such offer at any time after January 1, 2004 if the financial exposure related to certain litigation and policyholder claims can be quantified. The Company retains the right to distribute to shareholders or otherwise dispose of assets supporting common shareholders' equity prior to any acquisition by Canada Life of the Company's Common Shares pursuant to such offer.

(d) General fund assets of approximately $4.3 billion together with related liabilities and all segregated funds assets, were transferred to Canada Life on January 1, 1999. The gain on sale in 1999 attributable to shareholders of $47.9 million includes recognition of portions of deferred net gains realized on disposal of invested assets of $46.1 million and the foreign currency translation adjustment component of equity of $55.9 million, both of which related to the operations sold or indemnity reinsured. In addition, the Company increased its provisions for an indemnity related to the Company's U.K. operations, which were sold in 1995, by $33 million. The participating policyholders' account incurred a loss of $32.1 million on the Sale Transaction in 1999 reflecting a payment on account of the shareholders' entitlement to a share of the future income earned by the participating policyholders' business, together with costs attributable to the participating policyholders' account as a result of the reduction in participating account operations.

3. Invested assets

(a) Investments are accounted for on the following basis:

(i) Bonds

Bonds are carried at cost adjusted for amortized premiums or discounts and are net of specific provisions for credit losses. Net gains and losses realized on sales of bonds are deferred and amortized over the period to maturity of the assets sold. When there is a net disinvestment in a portfolio, a proportionate amount of the deferred net realized gains and losses is recognized in income. A decline in fair value of any bond that is considered to be other than temporary is recognized immediately.

(ii) Mortgage loans

Mortgage loans are carried at outstanding principal balances adjusted for unamortized premiums or discounts and are net of specific provisions for credit losses. Restructured mortgage loans are adjusted for unamortized discounts representing interest concessions which are taken into account in determining the provision for credit losses. Net gains and losses realized on the sale of mortgage loans are deferred and amortized over the term to maturity of the assets sold. When there is a net disinvestment in a portfolio, a proportionate amount of the deferred net realized gains and losses is recognized in income. A decline in fair value of any mortgage loan that is considered to be other than temporary is recognized immediately.

(iii) Real estate

Real estate held for investment, which includes own-use property, is carried at moving average fair value whereby the carrying value is adjusted towards fair value at 10 per cent each year. Net gains and losses realized on disposal are deferred and amortized to income at 10 per cent each year on a declining balance basis. When there is a net disinvestment in a portfolio, a proportionate amount of the deferred net realized gains and losses is recognized in income. Real estate acquired by

(Tabular amounts in thousands of dollars)

foreclosure is carried at the lower of cost and fair value. A decline in fair value of the portfolio that is considered to be other than temporary is recognized immediately.

(iv) Shares

Shares are carried at moving average fair value whereby the carrying value is adjusted towards fair value at 15 per cent of the unrecorded gain or loss each year. Net gains and losses realized on the disposal of shares are deferred and amortized to income at 15 per cent each year on a declining balance basis. When there is a net disinvestment in a portfolio, a proportionate amount of the deferred net realized gains and losses is recognized in income. A decline in fair value of the portfolio that is considered to be other than temporary is recognized immediately.

(v) Derivative financial instruments

The Company uses derivative financial instruments where appropriate in the administration of its asset-liability management and to assist in the management of financial risks, including interest rate and foreign exchange risks. Derivative financial instruments are used primarily for hedging purposes and are accounted for on the same basis as the hedged item.

(vi) Credit losses

The Company maintains provisions for credit losses, including losses of principal and interest on bonds, mortgage loans and real estate acquired by foreclosure. Provisions for credit losses consist of specific provisions for loans considered to be impaired and a general provision for other potential future credit losses.

The carrying value of loans considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable in the normal course of operations. A loan is considered by the Company to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is assumed to be impaired. In addition, the Company considers other factors in determining if a loan is impaired including the overall credit quality of the borrower and the fair value of the property.

A general provision is estimated for other potential future credit losses and is included as a component of policy liabilities.

A charge is included in income in the year in which expected credit losses are identified. Any change in the estimated realizable value subsequent to the initial recognition of credit losses is included in income in the period in which the change occurs.

(b) The carrying values, net of specific provisions for credit losses, and estimated fair values of invested assets, unrealized gains (losses) and deferred net gains (losses) realized on disposal of invested assets are as follows:

2000

	Carrying value	Fair value	Unrealized gains (losses)	Deferred net realized gains (losses)	Total unrealized and deferred net realized gains (losses)
Bonds	**453,110**	**464,481**	**11,371**	**7,918**	**19,289**
Mortgage loans	**394,819**	**393,476**	**(1,343)**	**900**	**(443)**
Real estate	**303,006**	**286,828**	**(16,178)**	**(12,975)**	**(29,153)**
Shares	**52,923**	**58,943**	**6,020**	**33,561**	**39,581**
Cash and short-term investments	**142,351**	**142,351**			
Accrued investment income	**11,108**	**11,108**			
Other	**9,988**	**9,988**			
	1,367,305	**1,367,175**	**(130)**	**29,404**	**29,274**

(Tabular amounts in thousands of dollars)

1999

	Carrying value	Fair value	Unrealized gains (losses)	Deferred net realized gains (losses)	Total unrealized and deferred net realized gains (losses)
Bonds	363,172	355,332	(7,840)	6,821	(1,019)
Mortgage loans	497,311	481,396	(15,915)	1,134	(14,781)
Real estate	371,545	340,860	(30,685)	(830)	(31,515)
Shares	42,134	42,846	712	12,360	13,072
Cash and short-term investments	122,392	122,392			
Accrued investment income	10,003	10,003			
Other	13,438	13,438			
	1,419,995	1,366,267	(53,728)	19,485	(34,243)

At December 31, 2000, the carrying value of mortgage loans is before deduction of general provisions for credit losses totalling $12.1 million (1999 - $20.6 million). In 2000, sales and maturities of mortgage loans, real estate, bonds and shares were $829 million (1999 - $461 million) and purchases of such investments were $738 million (1999 - $352 million).

Fair values for publicly traded securities are determined with reference to quoted market prices.

For mortgage loans and bonds which are not publicly traded, fair values are calculated using expected cash flows discounted at current market interest rates for similar investments.

The fair value of each real estate property held for investment is determined annually, primarily based on the net present value of estimated future cash flows, and an independent appraisal is obtained every three years. Fair value for real estate acquired by foreclosure and held for resale is estimated as the expected selling price less costs of disposal of each property.

At December 31, 2000, deferred net gains realized on disposal of invested assets which supported policy liabilities were $8.7 million (1999 - $8.4 million).

(c) The significant terms and conditions of each class of financial assets are as follows:

(i) Cash and short-term investments

Cash includes money market instruments with an initial term to maturity of 90 days or less. Short-term investments consist of money market instruments with an original maturity greater than 90 days and less than one year.

(ii) Bonds

The Company has established investment authorities which restrict investment concentration by industry sector, issuer, and credit quality. Holdings of corporate bonds in any industry sector are limited to 20 per cent of the portfolio. Investment limits which vary by bond rating have been established to restrict investment in any one issuer for bonds other than those issued or guaranteed by the federal governments of Canada or the United States. The Company's investment authorities set a minimum weighted average credit quality of the overall portfolio of A. At December 31, 2000, the bond portfolio had an average rating of AA+ and only one per cent of the bond portfolio was rated below investment grade.

At December 31, 2000, bonds with carrying values of $15.6 million (1999 - $15.1 million) have been pledged as security for letters of credit or derivative contracts.

(iii) Mortgage loans

Mortgage loans are generally secured by first recourse to the underlying property.

(Tabular amounts in thousands of dollars)

Bonds and mortgage loans by type and term to maturity are as follows:

2000

	Up to 5 years	Over 5 to 10 years	Over 10 years	Carrying Value
Bonds				
Government	**152,093**	**62,209**	**100,658**	**314,960**
Corporate	**61,413**	**51,602**	**25,135**	**138,150**
	213,506	**113,811**	**125,793**	**453,110**
Mortgage loans				
Retail	**185,511**	**28,589**	**10,301**	**224,401**
Office	**96,433**	**15,949**	**5,240**	**117,622**
Apartments	**26,761**	**9,074**		**35,835**
Industrial	**9,671**	**7,290**		**16,961**
	318,376	**60,902**	**15,541**	**394,819**

1999

	Up to 5 years	Over 5 to 10 years	Over 10 years	Carrying Value
Bonds				
Government	121,287	80,461	69,059	270,807
Corporate	38,683	29,072	24,610	92,365
	159,970	109,533	93,669	363,172
Mortgage loans				
Retail	185,971	56,183	16,220	258,374
Office	155,627	17,312	5,187	178,126
Apartments	25,985	12,879		38,864
Industrial	14,551	7,396		21,947
	382,134	93,770	21,407	497,311

At December 31, 2000, the weighted average effective annual investment yields for the portfolios of bonds and mortgage loans are 6.3 per cent and 9.2 per cent, respectively (1999 – 6.2 per cent and 9.3 per cent).

(iv) Shares

The Company's share portfolio consists of both common and preferred shares which have no fixed maturity date. Common shares, which represent 88 per cent of the share portfolio (1999 – 86 per cent) generally have no direct exposure to interest rate risk.

The investment authorities of the Company provide concentration limits on common and preferred share holdings by issuer and, in the case of preferred shares, credit quality. In addition, the authorities provide a limit on holdings of shares not listed on major stock exchanges in Canada or the United States.

(d) Investment income was derived from the following sources:

	2000	1999
Bonds	**26,533**	16,187
Mortgage loans	**44,842**	52,317
Real estate	**23,992**	26,324
Shares	**1,894**	1,914
Cash and short-term investments and other	**7,994**	7,465
Amortization of deferred net gains realized and unrealized	**5,404**	3,265
	110,659	107,472

Investment income received in cash was $109.9 million (1999 - $100.5 million).

(Tabular amounts in thousands of dollars)

(e) Investment income includes the amortization of deferred net gains (losses) realized on disposal of invested assets and the amortization of net unrealized gains (losses) on real estate and shares as follows:

	2000	1999
Bonds	**416**	(389)
Mortgage loans	**282**	117
Real estate	**(2,181)**	(1,595)
Shares	**6,887**	5,132
	5,404	3,265

(f) The notional amount and current credit risk of derivative financial instruments are as follows:

	2000		1999	
	Notional amount	Current credit risk	Notional amount	Current credit risk
Foreign currency contracts	**244,239**	**4,092**	202,900	4,117
Interest rate contracts	**20,000**	**90**	34,600	42
Equity swap contracts			26,001	9,843
	264,239	**4,182**	263,501	14,002

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged and does not represent direct credit exposure. Current credit risk is the estimated cost of replacing all derivative contracts which have a positive value. The Company's exposure is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. At December 31, 2000 and 1999, all counterparties had a credit rating of A or higher.

(g) Loans considered to be impaired (before specific provisions), specific provisions for credit losses, and general provisions for credit losses included in policy liabilities are as follows:

	2000		1999	
	Impaired loans	Credit loss provisions	Impaired loans	Credit loss provisions
Mortgage loans	**33,814**	**9,225**	46,721	10,216
Real estate acquired by foreclosure		**11,945**		11,608
General provisions included in policy liabilities		**12,079**		20,610
		33,249		42,434

At December 31, 2000, impaired loans included mortgage loans on which principal and interest payments were in arrears 90 days or more of $5.8 million (1999 - $8.2 million) before specific provisions. Real estate acquired by foreclosure and held for sale was $38.2 million (1999 - $47.2 million) before specific provisions.

Net foregone interest and principal losses charged to provisions for credit losses in 2000 were $9.2 million (1999 - $4.9 million). In 1999, an increase in the provision for credit losses of $8.2 million was included in the gain on Sale Transaction.

4. Policy liabilities

(a) Policy liabilities are accounted for on the following basis:

Policy liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Policy liabilities are determined using accepted actuarial practice under the policy premium method.

The process of determining policy liabilities necessarily involves estimations of future experience. The risk of deviation from best estimates varies in proportion to the length of the estimation period and the potential volatility of each component. Best estimate assumptions are therefore adjusted by margins for adverse deviation. At inception of a policy, these margins result in an increase in policy liabilities and a reduction in the amount of income that otherwise would be recognized. On participating policies, margins for adverse deviation are reduced to the extent that adverse experience would result in a reduction in the amount of dividends paid. With the passage of time, and resulting reduction in estimation risk, these margins are released into income. If estimates of future conditions change throughout the life of a policy, the present value of those changes is recognized in income immediately. Best estimate assumptions reflect agreements under which Canada Life has the option to acquire substantially all of the Company's remaining insurance business as described in note 2, whereby policy liabilities at the time of such acquisition will be determined on the basis of assumptions for mortality and persistency which were used at December 31, 1996. Policy liabilities include liabilities assumed under reinsurance contracts and are reduced by liabilities ceded to reinsurers.

The nature and method of determining the more significant assumptions made by the Company in the computation of policy liabilities are described below.

(i) Policy claims and benefit payments

The Company bases estimates of the amount and timing of future claims and benefit payments on its experience and that of the industry over extended periods. Some deviation from the pattern of claims and benefit payments indicated by past experience is probable.

(ii) Policy terminations

Although insurance policies generally require payment of periodic premiums over their full term, many policyholders will allow their policies to terminate by choosing not to continue to pay premiums. The Company bases its estimate of future policy termination rates on previous experience for each product. On certain products, including certain term life insurance products, lower termination rates than expected could result in higher claims than expected.

(iii) Investment income

The Company manages assets and liabilities using investment objectives which are appropriate for each type of liability, and matches policy liabilities with assets of similar duration. The computation of policy liabilities takes into account expected net investment income on assets supporting policy liabilities, projections of interest rates at which future cash flows can be invested, and anticipated credit losses.

(iv) Operating expenses

Policy liabilities include amounts to provide for the costs of administering policies in force, such as premium collection, adjudication and processing of claims, periodic actuarial valuations, preparing and mailing of policy statements, related indirect expenses and overhead. The process of forecasting expenses requires estimates to be made of such factors as inflation, productivity changes, and tax rates.

(v) Policy dividends

Policy liabilities include the present value of estimated amounts of future policyholder dividends.

(vi) Foreign currency

The Company matches policy liabilities with assets denominated in the same currency to limit exposure to foreign currency fluctuations.

(Tabular amounts in thousands of dollars)

(b) Policy liabilities consist of:

	2000	1999
Provision for future policy benefits	**484,290**	482,841
Policyholders' funds on deposit	**5,575**	5,606
Benefits payable and provision for unreported claims	**56,980**	48,697
	546,845	537,144

(c) The change in the provision for future policy benefits is as follows:

	2000	1999
Balance, beginning of year	**482,841**	4,295,991
Sale Transaction (note 2)	**-**	(3,796,076)
Normal changes	**(16,931)**	13,570
Foreign currency translation rate changes	**18,380**	(30,644)
Balance, end of year	**484,290**	482,841

Normal changes in the provision for future policy benefits include the effect of claims, surrenders and changes in the provision in the ordinary course of business.

(d) Policy liabilities by major line of business consist of:

	2000	1999
Individual participating insurance	**226,225**	216,475
Individual non-participating insurance	**187,266**	186,216
Group pensions	**50,100**	58,310
Reinsurance	**83,254**	76,143
	546,845	537,144

Substantially all of the policy liabilities are related to U.S. business, with the balance related to business in Canada and other territories.

Amounts above are after deducting liabilities ceded to reinsurers of $2,572 million (1999 - $2,473 million) including $2,545 million (1999 - $2,239 million) ceded to Canada Life with respect to indemnity reinsurance of business included in the Sale Transaction.

(e) Assets supporting policy liabilities consist of:

	2000	1999
Mortgage loans	**272,999**	297,287
Bonds	**169,683**	123,468
Cash and short-term investments	**104,163**	116,389
	546,845	537,144

All other assets support other liabilities and equity.

The Company has determined that it is not practical to determine the fair value of policy liabilities. Any change in the fair value of assets supporting policy liabilities would have a limited impact on the Company's equity position because the change would be largely offset by a corresponding change in the fair value of policy liabilities. A change in the fair value of assets supporting other liabilities and equity would result in a corresponding change in net income and equity of the Company when recognized.

Assets supporting policy liabilities in territories other than Canada and the United States are primarily denominated in U.S. dollars.

(f) For its individual life insurance business, the Company follows a policy of reinsuring coverage in excess of its retention limit at the time the risk is accepted. The maximum claim for which the Company is liable is $3.0 million on total claims arising from any one event and $1.5 million, in either Canadian or U.S. currency, of life insurance on any one life. The Company has reinsured 80 per cent of its residual liability with respect to any one life to Canada Life under the indemnity

(Tabular amounts in thousands of dollars)

reinsurance agreement referred to in note 2(a). The Company remains primarily liable to the beneficiaries for the full amount of coverage on the policies issued, and claims in excess of these limits are recoverable by the Company from the reinsurers.

5. Debt

The term debt of the Company at December 31, 2000 and 1999 consists of:

	2000	1999
Note payable	**85,450**	107,644
Mortgages payable	**96,000**	114,000
Convertible subordinated debentures	**-**	344
	181,450	221,988

Interest paid during the year was $18.1 million (1999 - $25.1 million).

(a) Note payable

Concurrent with the Sale Transaction, the Company issued a note payable to Canada Life in the amount of $131.6 million. During 2000, the Company made payments of principal of $22.2 million (1999 - $24.0 million) and the effective annual interest rate was 8.8 per cent (1999 - 9.0 per cent). Annual amounts of principal due in each of the next five years together with the effective annual interest rate in each year are as follows:

	Principal	Effective annual interest rate (%)
2001	15,787	8.6
2002	17,414	8.9
2003	17,775	8.8
2004	15,414	9.4
2005	1,407	8.7
Thereafter	17,653	

The note may be prepaid by the Company at any time. On any future acquisition by Canada Life of the Company's remaining insurance business or the Common Shares of the Company, as referred to in note 2, the principal balance outstanding at such time is immediately due and payable. The note provides, on any prepayment, for an additional payment by the Company to compensate the holder for the effect of any reduction in market rates of interest at the time of prepayment relative to the interest rate of the note, and a reduction in the principal amount payable by the Company if market rates of interest have increased. The fair value of the note payable at December 31, 2000 is $90.9 million (1999 - $113.6 million).

(b) Mortgages payable

On December 21, 2000, the Company completed first mortgage financings on two of its Canadian real estate assets in the amount of $96.0 million. The mortgages bear interest at the rate of 7.1% and are repayable on January 1, 2004. Annual amounts of principal due in each of the next four years are as follows:

2001	1,343
2002	1,566
2003	1,679
2004	91,412

The fair value of the mortgages payable at December 31, 2000 is $96.0 million.

On January 7, 1999, the Company completed a first mortgage financing in the amount of $120.0 million, secured by certain of the Company's Canadian real estate assets. The financing was repaid on December 21, 2000. Interest was payable at a rate equivalent to the yield on bankers' acceptances plus 1.75 per cent for the first twelve months, and a rate equivalent to the yield on

bankers' acceptances plus 2.00 per cent for the second year. The fair value of the mortgage payable at December 31, 1999 was its outstanding amount.

(c) Convertible subordinated debentures

Convertible subordinated debentures in 1999 consisted of $175,450 of Series A Debentures and $236,450 of Series B Debentures which mature on July 31, 2094 and July 31, 2030, respectively. A total of $75 million of each series of debentures was issued in 1995, at which time the outstanding principal amount was allocated to liabilities in the amount of $126.0 million and to equity, representing the conversion privilege, in the amount of $24.0 million. The difference between the value assigned to the liability component and the principal amount of the debentures was being amortized on a straight line basis over the remaining term to maturity of the debentures. The interest rate applicable to the debentures was a rate reset quarterly and paid semi-annually and was equivalent to the yield on 90 day bankers' acceptances plus 1.05 per cent.

The debentures were convertible at the option of the holders into Common Shares at a price of $65.00 per share until July 31, 2005. The debentures were subordinate to all policy liabilities and other indebtedness of the Company.

On January 8, 1999, the terms of the debentures were amended to permit retraction by holders at par without issuance by the Company of warrants. On January 12, 1999, the Company redeemed at par $149.5 million principal amount of convertible subordinated debentures which had been retracted by its principal shareholder, HARO Financial Corporation. Of the redemption amount, $23.9 million was attributed to the component of equity relating to the value assigned to the conversion privilege of the convertible subordinated debentures.

In 2000, all outstanding remaining debentures were converted to Common Shares.

6. Participating policyholders' and shareholders' equity

(a) The authorized share capital of the Company at December 31, 2000 and 1999 consists of:

(i) an unlimited number of Class I Preferred Shares, issuable in series, provided that the aggregate consideration received by the Company for all Class I Preferred Shares issued and outstanding at any time shall not exceed $300.0 million,

(ii) an unlimited number of Second Preferred Shares, issuable in series, provided that the aggregate consideration received by the Company for all Second Preferred Shares issued and outstanding at any time shall not exceed $250.0 million,

(iii) one Fifth Preferred Share, and

(iv) an unlimited number of Common Shares, provided that the aggregate consideration received by the Company for all Common Shares issued and outstanding at any time shall not exceed $1.0 billion.

(Tabular amounts in thousands of dollars)

(b) Participating policyholders' deficit and shareholders' equity consists of:

	2000	1999
Participating policyholders' deficit		
Deficit	**(12,211)**	(7,156)
Foreign currency translation adjustment	**324**	343
Total participating policyholders' deficit	**(11,887)**	(6,813)
Preferred shareholders' equity		
3,652,599 Class I Cumulative Preferred Shares, Series A	**91,315**	91,315
1 Fifth Preferred Share	**-**	-
Total preferred shareholders' equity	**91,315**	91,315
Common shareholders' equity		
Share capital		
Value assigned to conversion privilege of convertible subordinated debentures (note 5c)	**-**	72
3,201,194 Common Shares (1999 – 3,451,475)	**231,715**	250,773
	231,715	250,845
Retained earnings	**178,197**	160,073
Foreign currency translation adjustment	**13,795**	11,766
Total common shareholders' equity	**423,707**	422,684
Total shareholders' equity	**515,022**	513,999
Total participating policyholders' and shareholders' equity	**503,135**	507,186

With respect to the option described in note 2(c), the Company has agreed to ensure that there is no deficit in participating policyholders' equity at the time of the acquisition of Common Shares by Canada Life under such offer.

(c) The Class I Cumulative Preferred Shares, Series A, are entitled to receive fixed quarterly cumulative preferential cash dividends at a rate of $2.50 per year. The Class I Preferred Shares are redeemable at the option of the Company at $25.00 per share.

(d) The holder of the Fifth Preferred Share has the right to vote separately as a class with respect to any proposal to change the location of the Company's head office operations to a place not in the Province of Saskatchewan. The Fifth Preferred Share is redeemable by the Company after December 31, 2031 at a price of $1.00.

(e) At December 31, 1999, options to acquire 38,000 Common Shares were outstanding pursuant to a stock option plan under which a total of 117,168 Common Shares had been reserved for issuance. During 2000, all outstanding options were exercised and 38,000 Common Shares were issued for cash consideration of $1.9 million. The plan was terminated in 2000. The plan had been amended effective January 1, 1999 to allow option holders to elect to receive on exercise of options, in lieu of Common Shares, a payment in cash equal in value to the difference between the option exercise price and the trading price of the Company's Common Shares. During 1999, options with respect to 77,166 Common Shares were exercised for cash payments totaling $2.4 million.

(f) During 2000, 6,471 (1999 – 603) Common Shares were issued on the conversion of convertible subordinated debentures with a principal amount of $411,900 (1999 - $39,000).

(g) Under an Issuer Bid, the Company purchased and cancelled 284,044 Common Shares on November 21, 2000 for cash consideration of $123.00 per share. Following the completion of the Issuer Bid, pursuant to a right of compulsory acquisition under the Insurance Companies Act, on December 14, 2000, the Company exercised its right to acquire the remaining 10,708 Common Shares not held by the Company's principal shareholders at a price of $123.00 per share. The price paid per share was allocated to share capital in the amount of $72.39 per share and to

(Tabular amounts in thousands of dollars)

retained earnings in the amount of $50.61 per share. In 1999, under a Normal Course Issuer Bid which terminated in June 1999, the Company purchased and cancelled 6,500 Common Shares for average cash consideration of $80.84 per share.

(h) Fully diluted earnings per Common Share have been calculated as $7.61 for the year ended December 31, 2000 (1999 - $20.58).

(i) The Company maintains policies with respect to the payment of dividends to participating policyholders and common shareholders.

Dividends on policies within a class of participating policies are calculated using a method which reflects the differences between actual experience with respect to investment income, mortality, expenses and policy termination, and the assumptions made as to that experience in the original calculation of the policy premium. Classes of policies are defined and redefined from time to time by reference to policy factors such as premium rates, or to experience factors, such as mortality, which may vary based on geographic location, risk selection procedures, or other factors. The methods used are intended to give consistent and equitable treatment to different classes and generations of policyholders.

Any decision to pay dividends on the Common Shares in the future will be based on the Company's income, growth plans, regulatory capital requirements and other factors deemed relevant by the Board of Directors.

(j) Changes in retained earnings consist of:

	Participating policyholders'		Shareholders'	
	2000	1999	**2000**	1999
Balance, beginning of year, as previously reported	**(7,156)**	41,612	**160,073**	88,361
Future tax asset (note 7)			**6,987**	
Balance, beginning of year as restated	**(7,156)**	41,612	**167,060**	88,361
Net income (loss)	**(5,055)**	(31,759)	**35,185**	80,843
Excess of amount paid over stated capital for Common Shares purchased and cancelled (note 6g)			**(14,917)**	
Transfer of retained earnings pursuant to the Sale Transaction		(17,009)		
Preferred shareholders' dividends			**(9,131)**	(9,131)
Balance, end of year	**(12,211)**	(7,156)	**178,197**	160,073

The loss in the participating policyholders' account in 1999 consists of income from operations of $349,000 and a loss of $32.1 million on the Sale Transaction.

7. Income taxes

Effective January 1, 2000, the Company adopted new accounting standards of the Canadian Institute of Chartered Accountants ("CICA") for income taxes whereby income taxes are now accounted for using the liability method. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the enacted or substantially enacted tax rates and laws expected to apply when these differences reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(Tabular amounts in thousands of dollars)

Prior to adoption of this new accounting standard, income taxes were accounted for using the taxes payable method under which income taxes are provided on taxable income.

The Company has adopted the new income tax accounting standard retroactively without restating the financial statements of any prior periods. As a result, at January 1, 2000, the Company has recorded an increase in retained earnings and in other assets of $7.0 million.

Income taxes consist of:

	2000	1999
Current income taxes	**777**	536
Future income taxes	**280**	-
	1,057	536

Income taxes differ from the amounts computed by applying the combined federal and provincial income tax rate to income before income taxes as a result of the following:

	2000
Income before income taxes	**31,187**
Expected provision for income taxes at the combined Canadian federal and provincial statutory rate of 43.1%	**13,442**
Adjustments for:	
Tax-exempt investment income	**(15,212)**
Foreign operations taxed at different rates and bases	**2,059**
Large corporations and other capital taxes	**777**
Other	**(9)**
	1,057

Other assets includes future tax assets and liabilities which arise from temporary differences with respect to the following:

		2000
	Future tax assets	**Future tax liabilities**
Investments	2,052	15,424
Actuarial liabilities	4,382	
Loss carryforwards	250,640	
Other	7,460	4,081
Valuation allowance	(238,322)	
Future tax assets	26,212	19,505
Future tax liabilities	19,505	
Net future tax assets	6,707	

8. Segmented information

The Company has identified insurance and related operations as its single business segment.

9. Subsidiaries

At December 31, 2000, the material subsidiaries of the Company, all of which are wholly-owned, and the equity value at which they are carried in the unconsolidated financial statements of the Company are:

	Jurisdiction of Incorporation	**2000**	1999
CLIC Properties Inc.	Canada	**66,624**	70,363
CLIC Investments (Canada) Inc.	Canada	**(1,350)**	(722)
Crown Capital Partners Inc.	Canada	**138**	

The head office of the Company and its subsidiaries is Regina, Saskatchewan.

10. Contingent liabilities

The Company has voided certain reinsurance contracts and continues to investigate the validity of the claims arising from other reinsurance contracts. It is not possible to estimate the ultimate costs, if any, which may result.

The Company is a defendant in a number of lawsuits in Canada which were commenced in prior years involving the sale allegedly on a "vanishing premium" basis of participating whole life insurance policies. Many life insurers are defendants in similar lawsuits brought by purchasers of such policies. The Company will vigorously contest all lawsuits. It is not possible to predict the ultimate outcome of the outstanding litigation, or to estimate additional costs which may result.

Five-year Financial Summary
(millions of dollars)

	2000	1999	1998	1997	1996
Operating results					
Revenue					
Investment income	**111**	107	441	456	478
Premiums	**40**	45	834	845	842
Other	**-**	-	19	17	16
	151	152	1,294	1,318	1,336
Policy benefits	**83**	78	964	994	1,008
Expenses	**38**	41	287	279	280
	30	33	43	45	48
Income (loss) attributable to participating policyholders	**(5)**	-	23	8	9
Shareholders' income before the undernoted	**35**	33	20	37	39
Gain on Sale Transaction	**-**	48	-	-	-
Net income	**35**	81	20	37	39
Financial position					
Assets					
General fund	**1,391**	1,443	5,823	5,842	5,800
Segregated funds	**-**	-	784	805	800
	1,391	1,443	6,607	6,647	6,600
Long-term debt	**181**	222	127	126	126
Equity					
Participating policyholders' equity	**(12)**	(7)	56	28	17
Redeemable preferred shares	**91**	91	91	91	91
Common shareholders' equity	**424**	423	436	414	375
	503	507	583	533	483
Per common share (in dollars)					
Earnings	**7.61**	20.77	3.21	8.01	8.77
Fully diluted earnings	**7.61**	20.58	3.20	6.15	6.72
Fully diluted book value	**132.36**	121.54	96.67	92.70	86.01

Note: Effective January 1, 2000, income taxes are accounted for using the liability method. Prior to 2000, income taxes were accounted for using the taxes payable method.

Corporate Governance

The Board of Directors and management of Crown Life have established appropriate governance practices to assure the effective and profitable development and operation of the Company's business and its long-term financial strength. As a financial institution incorporated in Canada, the Company adheres to specific governance practices prescribed by the Insurance Companies Act (Canada).

The Board approves the strategic plan and annual operating plans of the Company, selects and evaluates the Chief Executive Officer, nominates directors, oversees the conduct of the organization, and reviews the risk management practices and the financial performance of the Company. Annually, the Board receives a report from the Appointed Actuary which analyzes the financial condition of the Company. The analysis tests the capital adequacy of the Company under assumptions of adverse economic and business conditions.

The Company has developed documented authorities which assign accountability for principal functions, including delegation of authority limits by the Board to the President and Chief Executive Officer and to officers and staff within the Company. The Chairman of the Board is not a member of management.

A majority of Board members are unrelated to the Company. Board members are introduced to the business of the Company through briefings and by assignment to committees so that all directors have opportunities to contribute to Board and committee deliberations. The committees of the Board provide the essential framework for governance.

Corporate governance is overseen by the **Corporate Governance Committee** of the Board of Directors. The Committee includes the Chief Executive Officer but has a majority of outside directors. The Committee ensures that procedures have been established for the proper and effective governance by the Board of the business and affairs of the Company. The Committee is also responsible for nominating directors. The Board has decided that effective governance is supported by a Board with a number of directors that allows the involvement of individual directors in discussion at Board meetings and effective decision making. In view of the changing nature of the Company's operations, the Board will propose at the Annual Meeting in 2001 that the number of directors be reduced to eight from 12. Five directors are to be elected by holders of Common Shares and three directors are to be elected by participating policyholders. Directors may engage outside advisors in appropriate circumstances with the consent of the Corporate Governance Committee. The Board has not adopted a process for evaluating its effectiveness or that of individual directors.

The **Executive Committee** meets on an ad-hoc basis and acts for the Board when it is not practical or possible for the full Board to meet.

The **Audit Committee** meets at least quarterly to review the financial statements and proposed disclosures of financial information before they are submitted to the Board or publicly released. It also monitors the Company's internal control procedures and reviews any transactions which could adversely affect the Company. The Committee consists entirely of unaffiliated directors. In performing its duties, the Committee meets regularly with the Company's Chief Financial Officer and, without management present, with the Company's Chief Actuary and external auditors.

The **Conduct Review Committee** reviews management's procedures for the review of transactions with related parties and meets as required to review material transactions with related parties. The Committee also reviews and monitors procedures to deal with conflicts of interest and resolutions of customer complaints. The Committee consists entirely of unaffiliated directors and meets at least once each year and otherwise as required.

The **Human Resources Committee** approves the compensation policy of the Company with respect to employees and directors, ensures that the relationship between senior management performance and compensation is appropriate, monitors succession planning for senior officers and reviews all executive appointments and reassignments. The Committee meets at least three times each year.

The Company has reviewed the guidelines set out in the December 1994 Report of the Toronto Stock Exchange Committee on Corporate Governance and has concluded that its corporate governance practices are in substantial compliance with the guidelines.

Board of Directors and Executive Management

Board of Directors

Paul J. Hill [1 4 5]
Chairman
Regina, Saskatchewan
President
Harvard Developments Limited

Frederick B. Ladly [1 4 5]
Vice-Chairman
Township of Bathurst, Ontario
Deputy Chairman
Extendicare Inc.

Brian A. Johnson [1 4]
President and Chief Executive Officer
Regina, Saskatchewan

The Hon. Allan E. Blakeney, P.C., O.C., Q.C. [2 4]
Saskatoon, Saskatchewan
Retired

The Hon. James J. Blanchard [3]
Beverly Hills, Michigan
Partner
Verner, Liipfert, Bernhard, McPherson & Hand

Beverly A. Brennan, F.C.A. [2 3]
Edmonton, Alberta
Corporate Director and Consultant

H. Michael Burns [5]
Maple, Ontario
Deputy Chairman
Extendicare Inc.

David J. Hennigar [2]
Bedford, Nova Scotia
Chairman
Extendicare Inc.

C. Dennis Knight [2]
Phoenix, Arizona
Chief Executive Officer
Communities Southwest, L.L.C.

Robert H. Lee, C.M. [3]
Vancouver, British Columbia
Chairman
Prospero International Realty Inc.
Chancellor Emeritus
University of British Columbia

Alvin G. Libin [3 5]
Calgary, Alberta
President
Balmon Holdings Ltd.

D. Murray Wallace, F.C.A. [5]
London, Ontario
Chairman
Park Street Capital Corporation

Honorary Directors

M.A. Cooper
J.H. Devlin
R.C. Dowsett
J.J. Jodrey
J.S. Palmer, Q.C

[1] Executive Committee
[2] Audit Committee
[3] Conduct Review Committee
[4] Corporate Governance Committee
[5] Human Resources Committee

Executive Management

Brian A. Johnson
President and Chief Executive Officer

Gareth W. Evans
Senior Vice-President and Chief Actuary

Alan M. Rowe
Senior Vice-President, Chief Financial Officer and Corporate Secretary

Christopher J. Anderson
Vice-President, Equities and Bonds

Gary K. Benson
Vice-President

Chris A. Selness
Vice-President, Business Development

Stephan R. von Buttlar
Vice-President, Mortgages and Real Estate